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THE RELATION OF THE PRICE OF PIG IRON TO COMMERCIAL PROSPERITY.

BY GEORGE H. HULL.

IN the recent enormous advance in the price of pig iron, the people of the United States have another opportunity of studying the cause of such advances, and realizing the controlling and disastrous effect they have upon business of all kinds throughout the entire country. It is well known that this advance is not an unusual occurrence, being only a repetition of what took place in 1854, 1864, 1872, 1880 and 1889. It was not disturbed finances, or loss of confidence, which turned the tide of prosperity in those years. It was the advance of from one hundred to three hundred per cent. in the price of pig iron. The loss of confidence and disturbed finances came months afterwards, and were the effects of the turn in the tide. Each of these advances, and its results, were object lessons, from which we might have learned much, if we had seized the opportunity, while the cause and its effect were passing before us.

The advance of 1899 is a fact of the present moment. It is here, the evidences of it are everywhere around us, and, if history repeat itself, the events which follow its culmination will be a vivid and instructive picture.

Let us study these results and fix permanently in our minds the truths they demonstrate. To do this intelligently, we must first appreciate the importance of iron in this age, and how much more thoroughly it enters into all business advances and improvements, than any other article. It is used in the preparation of the food we eat, in the manufacture of the clothing we wear, and in the building of the houses which shelter us. The pipes which conduct water, gas and other substances under the surface; the ever-increasing net work of rails which lie on the surface; the vehicles of transportation on land and sea, and the machinery of war and peace, are composed almost entirely of iron. Its consumption is a correct measure of the wealth and civilization of any people. It is the chief element of national growth and power, and each year it becomes more and more necessary to every business enterprise of mankind.

In this paramount dependence of civilized man upon iron, he is but following nature, in whose realm nothing lives, moves or exists without it. It is in the water which bubbles from the earth; it is in every drop of blood which flows through the veins of life; it is in the rocks and soil under our feet, in the vegetation about us, and in the heavens above us. The meteors which fall from the skies are composed almost entirely of iron. It is known to exist in large amounts in the heavenly bodies, and the gases of which iron is composed are found to make up largely the masses of vapor which float in the firmament, and which, by the forces of nature, are solidified into worlds.

The use of iron in the United States is in its infancy. Its consumption is progressing each decade with a cumulative force. Fifty years ago, one hundred pounds were consumed in the United States, annually, for each one of its inhabitants; ten years ago, there were three hundred pounds for each person, and to-day, we are consuming iron at the rate of four hundred pounds yearly for each one of our seventy-five millions of inhabitants.

Whatever restricts the consumption of iron limits, to that extent, the growth of the people in wealth and prosperity.

The wealth of a people consists of the accumulation of what their labor has taken from the earth and fashioned into useful and marketable articles and commodities. With a minimum number of the able-bodied men of the land employed, their combined labor would be barely sufficient to produce what the whole people consumed, and under such conditions there would be no increase in wealth. With every able-bodied man employed, wealth is rapidly and steadily accumulated; every man has some surplus for the comforts and material possessions, as well as for the necessities, of life; and every man is adding to his property, and to the wealth of the nation. This creates the wonderful demand which absorbs everything that can be produced. Every factory, every means of transportation, and every business, are driven to their utmost capacity. The demand is enormous, because the earnings of the whole people are enormous. They cannot get their orders filled as fast as they get the money to pay for them. While this condition exists, the business of the country is on a safe and firm foundation. You cannot over-do such prosperity; it has a safe limit, and that limit is reached when every worker is employed. It is the natural condition of an industrious people: it is, in effect, simply the whole people at work, consuming what they need from day to day, and accumulating the surplus results of their labor, in the form of permanent possessions.

Nothing short of war, pestilence or famine, should check such a condition, and yet without any of these causes, it is invariably checked in this country after a few months' duration. Is it merely a conincidence that this has occurred, in each case, a few months after an abnormal advance in the price of pig iron, or is there some connection between the two? Is one the cause and the other the effect? This is at least a clue—let us follow it. In the centre of growth in this country, iron advanced from nineteen dollars to fifty dollars a ton in 1854; from eighteen dollars to seventy-five dollars in 1864; from thirty-five dollars to sixty dollars in 1872; from twenty dollars to forty-five dollars in 1880; from nine dollars to seventeen dollars in 1889; and iron which was sold a few months ago at six dollars in Alabama, is selling at twelve dollars to-day, with an advancing tendency and a visible supply of but six days' production.

There are thousands of articles produced all over the country in which the price of iron plays so small a part, that their manufacture would continue, whether iron was six dollars or sixty dollars a ton; but the duration of prosperity depends upon the continued growth of the great enterprises, and, in most of them, the price of iron is the chief factor. Many of the enterprises are known to pay but a small revenue upon a normal cost of construction. It is the stoppage, one by one, of such as cannot be continued at famine prices for iron, and the discharge of the workmen employed, which brings a premature end to each of our commercial revivals. This end does not come suddenly, nor does it come at the time when the price of iron advances; consequently, the general public do not connect the two. The cause and the effect are separated by several months. The reason why the important undertakings do not feel the effect and stop, at the time the advance in price takes place, is that they have all the material they will require for months ahead contracted for at normal prices. It is when these normal-price contracts are exhausted, and the people who furnish the capital for these undertakings come to face the question of continuing at famine prices for iron, or suspending work until they can resume at reasonable prices, that the fatal blow to prosperity is felt. This comes at a time when there is no lack of money and no lack of confidence; on the contrary, business is at the very height of exhilaration and confidence. With these stoppages comes a curtailment in the consumption of lumber, stone, brick and other materials which follow in the wake of iron consumption; more men are discharged, and the blight has commenced its fatal work.

This turn in the tide is not noticed at first; the community at large is still busy trying to catch up with its orders. We each hear occasionally of some work which has been discontinued, but what we hear makes no impression; we think it an isolated case, if we have time to think of it at all; whereas it is typical of what is taking place quietly all over the country. Soon manufacturers commence to catch up with their orders. There is a lull in the demand. Next, they commence to pile up some of their product, which a few months before they could not turn out fast enough to supply the demand. Next month witnesses a further increase in stock; this goes on until some have more than they can carry. These make an effort to sell, and are surprised to find little or no demand; most concerns have over anticipated their wants, and are more anxious to have their old purchases postponed than they are to make new ones. Finally, some forced sales are made; the prices realized show a heavy decline; this occasions comment; others become anxious about their stocks; the pressure to sell increases; more stocks are forced off; larger reductions in prices are made; the uneasiness grows, and soon there is as great a scramble to sell as there was a few months before to buy.

Prices are soon at a figure that would justify the great enterprises in resuming their extensions, but confidence has gone. The great profits which stimulated these enterprises a few months before, are supplemented by great losses; failures increase; all business takes the alarm, and a panic is the ultimate result.

Whatever is responsible for the stoppage of the great improvements and the discharge of the men employed, is responsible for changing a natural condition of prosperity, to an unnatural condition of adversity.

If it is not iron, what is it? There is no other article of importance which is subject to such a condition of inadequate supply or excessive advance in price. It is profitable to carry lumber for seasoning purposes, hence we have a stock of two or three years' production, piled up in every town, city and village; extraordinary demands can be made on this stock without inordinate advances in price. The output of brick and stone can be increased quickly to meet any demand, by increasing the force in the brick yards and stone quarries; buildings can be put up to-day, exclusive of the iron used, at an advance of five to ten per cent. It is not food or clothing; there is no great advance in any of these articles. Pass in review every other article, and you find no such famine and famine prices as take place in pig iron from time to time. The more it is studied, the more one will be impressed with the conviction that the unnatural price attained by iron is the cause which puts a stop to our natural flow of prosperity.

Every great staple, except iron, is either carried in large quantities, or its output can be increased to any desired degree, at short notice; consequently, we have no famine or famine price in the other staples. The average stock of iron carried in the United States, during the last ten years, has been less than twenty-three days' product, and it takes practically a year to build new furnaces. What wonder, then, that as the books of consumers fill up with orders for months ahead, they become alarmed about the supply of iron, and in the scramble that each one makes to get enough to supply his individual wants, the price is carried to enormous figures.

The only remedy for this evil, is to carry an ample supply of iron. This remedy will be supplied in a simple and natural way as soon as the iron men of the country recover from the mistaken idea that a twenty-three days' stock of iron is over-production. It will be hard for the uninitiated to believe that such an idea prevails, but it is a fact. A score of efforts have been made, during the last twenty years, to restrict production. The writer was at the head of one of these efforts in the year 1884, and had no idea, at the time, of what an unwise thing he was attempting.

The iron men of the country who have suffered from these inordinate advances in former years, made a heroic effort to check the advance of the last few months; but, with the small stock usually carried in this country, it is not in the power of any man or any number of men to stop these excessive advances. The only possible way to stop them is to have the iron on hand when the country wants it. To attempt to check the advance, by quoting at low figures what you have not got to sell, or to sell at low figures iron to be made in future months, is worse than useless. This does not satisfy the consumer who must have it now.

No sane man in this age would build an engine without a governor, or a rolling mill without a balance wheel; and yet the most important interest of this country is without such a regulator. What we need is a balance wheel to the iron business—some system for accumulating stocks of iron in times of plenty, to be drawn upon in times of great activity. It is of the first importance to this age, and to the generations that are to follow.

How can this be done?

Experience proves that it will not be done by either the producer or the consumer. Each one finds employment for all his money in his legitimate business. In the grocery, drygoods and many other branches of business, the wholesaler and retailer come in between the producer and consumer, and they become the carriers of large stocks; but there is no such middle element in the iron business. Iron goes directly from the producer to the consumer. There is, therefore, no natural medium for carrying large stocks of iron, and no medium can be successfully established, unless it is made profitable to the carrier.

At one time, there was no profitable system for carrying large stocks of grain, cotton, mineral oil, etc., and, during that time, these articles were subject to enormous fluctuations in price. Means of storage existed, but even then the carriage was attended by loss of the cost of storage and interest, and the price of these articles was inordinately low at the time of harvest. Later on, certificates representing these articles came to be dealt in on Exchange; as the dealings in these certificates grew to be large, this carriage, through modern exchange methods, became profitable, and the extreme fluctuations in price were eliminated. The most pronounced instance of this change is found in the price of mineral oil, which fluctuated during the nine years before it was dealt in on Exchange from 52 cents to $7.88 per barrel at the wells, as against a fluctuation of from 64 cents to $1.06 during the nine years after it was dealt in on Exchanges. The largest stock carried during the first period of nine years was five hundred thousand barrels; the average stock, after it was dealt in on Exchanges, was thirty-six million barrels. In other words, before Exchange dealing existed, a stock of five hundred thousand barrels carried the price down to 52 cents; after Exchange dealings were inaugurated, a stock, seventy-two times as large, was easily carried, with 64 cents as the lowest price reached. Could there be a stronger illustration of the beneficial effect of Exchange dealings?

A three weeks' stock of pig iron in the United States during dull times, carries prices below the cost of production. With active dealings in pig iron on Exchanges, a six months' stock could be easily carried, without forcing prices to as low a point.

For thirty years out of the last fifty, the stock carried in Scotland, by Exchange dealing alone, has amounted to more than six months' production, and at one time, for five years in succession, the stock amounted to more than twelve months' production. Great Britain for the last hundred years has been the chief source of the world's iron supply. Hereafter, the United States will be the chief source of supply, and should fortify herself with an ample stock to meet her own and the world's demand. A six months' supply could be easily carried by Exchange dealings; such a stock would prevent the abnormal advances from which the business of the country now suffers, but would not prevent a wholesome advance of from ten to fifteen per cent. Such moderate advances would give great prosperity to the iron manufacturers but would not check the growth of our great enterprises. Our seasons of prosperity would be reckoned by years instead of by months.

There is a general impression on the part of the public that Exchange dealings enlarge the fluctuation in price of the article concerned, but this is totally without foundation. During the summer of 1889, an expert accountant was employed to investigate this question; the different Exchanges gave free access to their books for the purpose; all the general commodities dealt in were investigated, and in every case it was found that the extreme prices reached before they were put on Exchanges had not occurred afterwards. In place of large fluctuations occurring weeks or months apart, there were small fluctuations occurring many times each day, but, as in the case of oil cited above, the extremely low and extremely high prices were eliminated. The fluctuations in the price of pig iron in Scotland, where it has been dealt in on Exchange for fifty years or more, as against its fluctuations in the United States, where it has not been on Exchange until very recently, gives a reliable comparison of the effect of these two conditions.

A forced sale of 20,000 tons in the United States during the last twenty years under normal conditions, would have caused a decline in price of from twenty-five cents to fifty cents a ton; the same amount forced off on the Glasgow Exchange would have caused a decline of perhaps a half penny. On the occasion of a very depressed market, within the last three years, a forced sale of 10,000 tons in the United States caused a decline of two dollars a ton; 30,000 tons were sold on the Scotch Exchange at the same time at a decline of one penny and a half per ton.

There is no lack of capital for the carriage of surplus stocks of iron. Nearly one-quarter of the entire wealth of the United States is represented by certificates dealt in on Exchanges. The amount of new certificates added each year to the Stock Exchange alone is about four hundred millions. A stock sufficient to insure the business of the country against these iron famines, would not absorb one hundredth part of the additional money which goes into certificates each year. The cost of carrying iron is only about one-fourth as much as the cost of carrying grain, cotton, oil and other staples. The former requires only an inexpensive fence in the open air, the latter require expensive elevators, warehouses and tanks.

With active exchange dealings in iron, this country, during the last five years, could have accumulated an ample supply of iron, prices would not have ruled so low during the dull periods, and would not now be so high nor the stock so short as to cramp the business of the country.

In this age, an ample supply of iron, and stability in its price, is second in importance only to a stable government. We may avoid the disasters resulting from a scarcity of money in times of an extraordinary demand by inaugurating a flexible currency system, but we cannot build flexible furnaces.

GEORGE H. HULL.